CONNECTING ALASKA
THROUGH THE "CONNECT AMERICA FUND"

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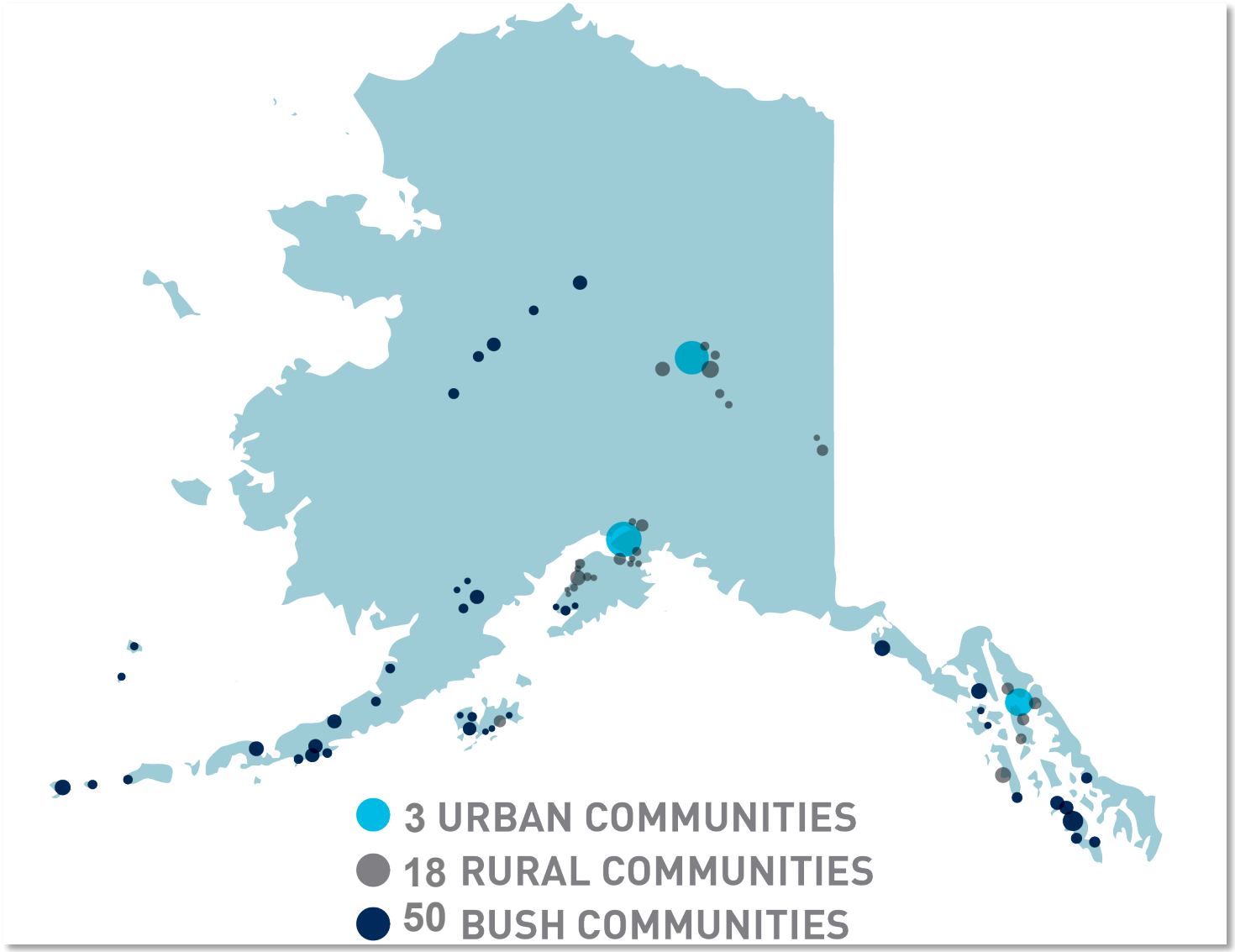
The Connect America Fund Outcome Must Provide Sufficient Support For Alaska

- Connect America Fund, Phase II (CAF II) will soon replace all existing high-cost USF
- The Commission directed the Bureau to create a model capturing forward-looking costs at a granular level, and allocate funding among all price cap carriers, including those serving non-CONUS (contiguous United States) service areas, based on a fixed annual budget of $1.8 billion for five years
- The Connect America Model (CAM) currently under development does not appear to sufficiently account for local conditions such as the very high cost of deploying and operating broadband networks in Alaska
- If the outcome is flawed, the model is flawed, the Bureau must modify the model
- Since 2011, ACS has been receiving about $19 million per year in high-cost support, down from an average of about $28 million per year between 2005 and 2010
- Under the latest version of the model, ACS support would further decrease, making it difficult to maintain existing services, let alone expand broadband

ACS: The Only Alaska ILEC Serving Urban, Rural and Bush Communities

- ACS is Alaska's largest ILEC but still a small carrier by national standards
- ACS provides urban, suburban and rural service to the state's three largest population centers, Anchorage, Fairbanks and Juneau – Anchorage alone qualifies as "non-rural" under the Communications Act
- ACS also is the largest *rural* ILEC in Alaska, providing essential connectivity to about 18 rural community hubs such as Delta Junction, Kenai, Kodiak and Sitka
- ACS also serves nearly 50 Alaska Bush locations– small and geographically isolated communities spread out over more than 1,000 square miles, lacking fiber or other fixed terrestrial broadband infrastructure links to other locations
  - Most Bush communities cannot be accessed by road and are off the power grid
  - Bush communities rely on satellite or point-to-point microwave radio communications to connect them to other locations
  - Most Bush locations will not qualify for CAF II support – they will default to the RAF

Alaska Communications Fixed Service Areas



ACS CAF-Eligible Costs Include Drivers Unique to Alaska

- ACS's undersea cable requirements are unique to Alaska's geography
  - Eight cable landing points are required, not merely four
  - Per-location costs are considerably higher than captured by the model
  - Assumptions about cable usage should reflect forward-looking growth in demand for Internet access and other residential broadband services, and competition for wholesale traffic from a federally subsidized competitor

- The state's small population is disbursed over an area equal to one-sixth of the nation's total square mileage

- The soil type and plant mix are unavoidably different in Alaska

- ACS is effectively a small carrier, with operating expenses dictated by it size

- Capital expense inputs used in the model understate the true cost of deploying broadband in Alaska (including increased costs to purchase equipment, transport it and deploy it in Alaska)

- The presence of a federally subsidized competitor fundamentally changes the economics of deploying broadband in Alaska

CAF II – ACS Advocacy History

ACS has participated at each stage of this proceeding since it began in 2010:

- ACS has submitted extensive analysis to the FCC of the appropriate rules for CAF II and design of the model throughout its development, including:
  - 35+ pleadings addressing design and implementation of CAF II
  - Detailed presentation on Alaska-specific issues in the September 2012 workshop
  - Multiple submissions in the CAF II Virtual Workshop
  - Dozens of in-person visits with staff and commissioners on CAF II
  - ACS proposals have reflected staff and industry input

- ACS has modeled and submitted to the FCC and CostQuest its own forward-looking costs in Alaska
  - ACS has advocated that the CAF II rules accommodate Alaska-specific conditions
  - ACS submitted information about Alaska beginning in 2010, and filed Alaska-specific cost data in February 2012 and again in expanded form in 2013
  - ACS shared its cost data with CostQuest and advocates of the CQBAT model

- ACS has proposed a limited number of specific and conservative modifications to the FCC's model to reflect real-world Alaska conditions

CAF II – The FCC's Model Must Be Modified

The FCC's model can produce a reasonable outcome for Alaska if it is modified in the following ways to reflect the unique conditions inherent in serving Alaska :

1. Undersea cable costs must reflect geographic realities & costs of serving Alaska
   - The cost of eight landing stations rather than four must be included in the CAM
   - The annual cost factor in the model should be higher for undersea cable than for terrestrial middle-mile fiber
   - A greater proportion of undersea cable costs should be attributed to ACS customer locations & qualifying ACS services, due to the presence of a federally subsidized competitor and growing residential broadband demand
2. "Plant Mix" should reflect more buried and underground plant than overhead plant
3. "Soil Type" should be all "Hard Rock" to reflect realities of deploying plant in Alaska
4. CapEx inputs should be increased by 10% to reflect higher costs of purchasing, transporting and installing plant in Alaska
5. Based on ACS's size and line loss, ACS should be classified as a "small" LEC
6. 80% take rate assumption is unrealistic given presence of a federally subsidized competitor
7. ACS requires a10-year build-out period to complete the required deployment, in light of the uniquely short construction season and limited labor pool in Alaska


Connecting Alaska
depends on smart
public policy choices